Section III
CAPITAL ACCESS ISSUES

The consultant team interviewed representatives of organizations that the City/County Task Force identified regarding capital access issues. The individuals interviewed are presented in Addendum A. Not every organization or knowledgeable person could be interviewed due to study resource constraints. However, the individuals that were interviewed represent a broad array of interest groups associated with affordable housing and small business development. They include non-profit and for-profit low-income housing developers, community organizations, commercial and non-profit lenders, foundations, government agencies, and business organizations. This section presents a summary of their comments. These comments are subjective and qualitative. While they provide important insight to the practical issues associated with capital access in low- and moderate-income communities, they do not necessarily represent broad opinion. These comments do not necessarily represent the opinions of the City/County Task Force or the consultant team.

AFFORDABLE HOUSING

Several issues were raised related to affordable housing development and low-income homebuyer needs. Most interviewees indicated that lenders in San Diego County are supportive of affordable housing development, and that bank financing for affordable housing projects is widely available in today’s favorable market conditions. Some noted that capital, however, was less available for affordable housing during the last recession.

Today’s major constraints to financing affordable housing that interviewees identified included the following:

1. The economic disincentives to build low and moderate-income housing.
2. Limited public financial assistance for low and moderate-income housing development, specifically bridge loans, silent seconds, and seed capital for non-profit developers.
3. Insufficient support and technical training of community-based development corporations (CDCs).

4. Inadequate coordination among community planning efforts, impact fee schedules, and the economics of affordable housing development.
5. Limited commitment to effective home loan counseling programs.
6. The impacts of bank mergers.
7. Other issues.

<u>Economic Disincentives to Build Low and Moderate Income Housing</u>

Many economic disincentives to build low and moderate income housing were cited. The countywide median home price exceeds the median household income by a significant amount. The San Diego region often is classified as one of the least affordable housing markets in the country. Some of the disincentives that those interviewed cited regarding low and moderate-income housing were as follows:

- **Land costs in the region are rising** as the population grows, the amount of developable land is absorbed, and the supply of land is diminished. As the region approaches build-out, particularly in the urban areas, housing must be developed through the more expensive process of infill development and redevelopment.

- **There is a shortage of market rate multi-family housing.** The reported vacancy rate for apartments during the last year was less than 2 percent. This puts price pressure on all types of housing. In some cases, multiple families must crowd into a unit to pay the rent.

- **Impact fees** increase the cost to develop affordable housing, and make it difficult to structure financable affordable housing projects. Some felt that the cost of mitigating the impacts generated by low and moderate-income households need to be funded some other way.

- There are **economies-of-scale to build larger affordable housing projects** of 60-100 units, but it is difficult to find sites to accommodate projects of this size and often there is community opposition.

- It is **difficult to support sufficient size loans** to develop or rehabilitate residential buildings in low-income communities with conventional loan/value underwriting criteria, because appraised values are low.

- **Low-income projects are not as profitable for banks** to pursue given the complexity and small loan size relative to conventional market-rate loans.

- Low-income projects are more complex because of the **multiple financial entities**, including the construction lender, the permanent lender, the government agency, and the tax credit partner.

- **Lenders should be more flexible and make more allowances for rehabilitation projects** where smaller units need to be combined to create larger housing for low-income families with children. This type of conversion is difficult to do because it tends to reduce the development's overall value per square foot.

- Low and moderate-income households have **fewer resources to generate equity**. Since many households misuse credit cards to obtain cash, their cost of financing is often high.

Public Financial Assistance for Affordable Housing

The limits of public financial resources for affordable housing development was identified as one of the primary barriers to increased low-income housing development in San Diego County. Lenders were described as supportive and eager to work with for-profit and non-profit developers on affordable housing projects. However, the low supply of public financial support and seed capital funding to assist developers of low-income housing, relative to potential demand, has severely limited the amount of low-income housing that is developed. The need for more public capital for bridge loans, silent second mortgages, and seed capital for non-profit developers was cited. Specific issues that were mentioned include the following:

- **The capacity of the City of San Diego Housing Trust Fund** is an extremely important issue to address. Many considered the Trust Fund a potentially very effective resource for financing local affordable housing development, but noted that its funding sources has diminished significantly since its inception.

- **San Diego does not get its fair share of tax credit allocations** for low-income housing projects.

- Lenders and community based development corporations (CDCs) approach the public sector for **gap financing** for affordable housing projects, but because of the limited public funds available, they are not always able to move forward with as many potential projects as they would like to develop to meet demand.

- Some interviewed perceived a **tendency to put too much capital on a few single projects** rather than spread assistance around. Some felt that cities and redevelopment agencies put too much emphasis on the moderate-price rather than low-income housing.

- Some considered the **average wait time in the public funding process lengthy** for down payment assistance to first time, qualified homebuyers. It was suggested that agencies should develop underwriting criteria and forms with that are similar to the criteria and forms banks use, and delegate underwriting of public agency funded projects to participating banks. This action would help coordinate and expedite the loan approval process, and could help reduce bank fees due to the timesavings. Housing agencies have worked to expedite and coordinate the decision-making process considerably. The public may not be fully aware of these improvements.

- **An employment driven strategy**, similar to efforts of the Silicon Valley Manufacturing Group, was suggested for San Diego County. This strategy is based on the premise that affordable housing plays an important part in attracting and retaining a skilled, quality work force. While many employers are beginning to realize the connection, their focus has been on home ownership, although affordable rental housing is needed as well. It was suggested that there should be more research on connections between workforce quality and the availability of affordable housing, and this research should be communicated to the region's major employers and worker organizations. One strategy might be to identify a major private sector employer who could play a leadership role in this area.

- The private sector plays an extremely important role in building public and political support in San Diego County for any issue. If the private sector is not involved in an issue, politicians and the public do not view the issue as valid. For this reason, there should be efforts to **utilize financial institutions involved in affordable housing financing as advocates** for affordable housing.

- **The smaller cities in particular do not have enough funding** for affordable housing assistance, other than their redevelopment set-aside funds and some CDBG funds.

CDC Capacity Building

The continuing development of the relatively young network of private, non-profit, community development corporations in San Diego County was identified as a major issue by both financial institutions and CDCs. Many persons interviewed felt that keeping the CDCs well funded, growing, and healthy should be a major priority. Their specific suggestions were as follows:

- San Diego's CDCs are fairly non-traditional in that some of the most active in developing affordable housing are not necessarily neighborhood based. They are also relatively young, and due to the lack of government experience with private CDCs, local non-profits often face institutional or political barriers to their projects. As such, a great deal of their time is spent on sustaining the organization rather than creating affordable housing. **The CDCs need to have better sources of funding that are not always tied to projects, or wholly dependent on government.**

- Some considered that existing funding of predevelopment grants is not sufficient to cover organizational development and operating costs. **There is a need to develop additional predevelopment and capacity building grants.** Some cited that predevelopment loans in particular are very low. The City of San Diego Housing Commission, however, does not have limits on pre-development loans, but rather evaluates each application on a case-by-case basis taking into account need and risk. Others felt that banks could play a greater role in building the capacity of CDCs.

- **The core operating support program funded through the Ford Foundation should be refunded.** Capacity building for affordable housing development is a difficult product to sell to funding organizations and is not as compelling as human or youth services. However, CDCs need increased support from government and the business community to ensure that the existing CDC infrastructure in San Diego County will continue to develop.

Relationship of Planning Regulations

Another issue raised during the interviews was the need for better linkages between planning efforts and affordable housing development. There were several suggestions and issues raised, as described below:

- **Density issues should be considered in conjunction with affordable housing issues, not separately.** Density bonus provisions should be used more. Density bonuses are a good example of how planning related tools can assist with meeting affordable housing goals, but developers have not taken advantage of bonuses in a major way.

- **Flexible parking requirements, especially for multi-family housing in transit corridors,** should be used more to reduce the cost of development. Financial institutions tend to trust the public agency's zoning, especially with multi-family rental housing. Some felt that the Metropolitan Transit Development Board (MTDB) should be more proactive, and help underwrite the cost of affordable housing near transit stations.

- There needs to be greater **support for mixed-use projects that provide affordable housing**. Transit oriented development should be further pursued. Some felt that there is lack of commitment in San Diego County for these types of development. It is more difficult, however, to finance mixed-use projects because lenders sometimes do not count commercial rent fully towards the project's value, resulting in a greater equity requirement. Conversely, lenders sometimes approach mixed-use projects as commercial developments and do not fully count residential rental income.

- Some felt that cities should **raise the issue of affordability when major commercial developers propose large development projects.** For example, elsewhere, the City of San Francisco required the developer of Mission Bay to capitalize a revolving loan fund for non-profits to provide housing within Mission Bay.

- Many note that **impact fees are too high to provide affordable housing without subsidy.**

- **Some considered the approval processing time too long or rigid**, without consideration of financing deadlines, particularly for the competitive tax-credit programs. If projects relying on tax credits are not approved by a certain time, the tax credit allocations are lost.

- It was noted that **inclusionary housing policies** exist in the City of San Diego's North City Future Urbanizing Area, the City of Carlsbad, and some redevelopment project areas.

Home Loan Counseling

According to most interview participants associated with affordable housing, home loan counseling in San Diego County has been an effective and critical tool for increasing home loans to households in lower income communities. However, many individuals felt that the capacity of the home loan counseling services in San Diego County needs to be expanded to meet demand. Furthermore, the current funding structure for home loan counseling was identified as having several limitations. The following specific issues related to home loan counseling were identified:

- The existing home loan counseling programs have been successful on limited budgets and with small staffs. Some cited national studies that have substantiated the importance of home loan and homeowner counseling services and education in lowering loan default rates. However, **the demand for home loan counseling in San Diego County is much greater than the capacity of the existing organizations that provide such services**.

- Home loan counseling consists of two major components: group seminars and one-on-one counseling. Many clients of the home loan counseling programs would be denied if they went directly to a bank and applied for a loan. Some felt that bank loan officers do not have the incentive to spend the time required to educate low-income homebuyers in order to qualify them for a home loan. **Individualized counseling is the most critical part of home loan counseling, but is also the most time consuming and expensive.**

- With new public and lender programs, households with incomes as low as 50 percent of median income can afford home ownership. However, these programs have also created a sharp increase in the demand for home loan counseling services. The economy and rising home prices have also expanded the need for individualized counseling. According to service providers, five years ago, approximately one out of every seven participants in homebuyer educational seminars would be "loan ready." Now, only one out of every fifteen is considered "loan ready." The other fourteen require individualized counseling. **The workload has increased, but funding has not kept pace with the increased demand.** Local municipalities with down payment assistant products require home loan counseling, but do not budget money to pay for educational seminars and counseling. Sometimes they allow banks to simply give out booklets or videos in lieu of counseling.

- There is a need to expand home loan counseling to allow for more outreach. **Many people incorrectly assume that they can not afford home ownership and do not understand the benefits of home ownership.**

- Banks should improve loan officer training. **Loan officers are not always trained properly to work with low-income products and people.** The loan officer commission structure provides a disincentive for loan officers to spend more time with low-income homebuyers. Furthermore, interpersonal and language skills are often weak, and many loan officers are not familiar with their own bank's low-income homebuyer products.

- **The structure of funding for home loan counseling programs creates difficult situations.** Home loan counseling programs have opened up new markets to banks and inadvertently perform a great deal of marketing on behalf of banks to low-income communities. As such, the financial institutions help fund home loan counseling. However, some perceive that financial institutions view the home loan counseling agencies as an extended marketing arm of the bank, rather than a community development tool. Some banks expect to receive a specific number of referrals based on the amount of funding they provide to the home loan counseling agencies. Home loan counseling programs, however, refer people to banks based on the quality of service that banks provides, and, according to some interviewed, some banks still do not provide the level of service necessary to address the specific needs of low-income homebuyers. Some feel that financial institution support for home loan counseling is not consistent nor high enough.

- **The board composition of home loan counseling non-profit organizations needs to be diversified.** Currently, financial institutions comprise the entire board membership and put a great deal of pressure on home loan counseling agencies for referrals. According to some, this does not provide a balanced decision making entity. There is currently no or limited community presence on the boards. Many potential funders will not provide grants to home loan counseling agencies because of the perception that a non-profit with a board comprised of financial institutions should be well funded.

- **The counseling programs could be more efficient.** Some felt requirements for hours per seminar are too onerous. The City of San Diego requires sixteen hours of seminars per individual served, but this is not always effective given people's busy schedules. Some home loan counseling services have found that four hours of education is appropriate. HUD and City funding is also bureaucratic and political, and much of the staff's time is spent writing proposals, reporting, collecting data, and attending community hearings.

- A recent trend has been the creation of new housing counseling programs by CDCs. **CDCs should consider forming collaborations with existing home loan counseling services.**

<u>Bank Mergers</u>

There is a qualitative perception that the proliferation of bank mergers has diminished the involvement in community development and lending by the banking industry. While many of the individuals interviewed found it difficult to pinpoint specific examples of how bank mergers and closures in San Diego County affected affordable housing development and low income home loans, there were several comments made regarding the general impact of the mergers, as follows:

- **There is a perception that the loss of corporate headquarters in San Diego has generally made it more difficult to interest lenders in community development activities.** Large statewide banks sometimes combine San Diego with the rest of Southern California, and maintain their community lending staff in Los Angeles. Banks with headquarters in San Diego are easier to access. Greater American and Home Fed were major San Diego corporations, not just lenders. Also, bank foundations with a local community presence have a better understanding of community needs. Some non-profits felt that bank foundation grants have declined as mergers consolidated the number of banks and reduced the number of locally based banks.

- New lenders are not as knowledgeable about the community development lending needs in San Diego County. **There are costs associated with having to re-educate lenders who are new to the community.** Many banks have the funds, but not the consistent staff who are familiar with community development and low-income housing projects.

- **Non-profit housing developers require continuity in order to complete their increasingly complex projects.** There is a great deal of uncertainty about the impact of major mergers on this continuity. Non-profits need to have one loan officer who follows a specific affordable housing project from start to finish. Affordable housing developers require loan officers and banks who are educated about affordable housing development and who are use to complex, multi-source affordable housing deals.

- **Home loan counseling programs that are funded through bank membership have lost funding and board members due to mergers.** The amount a bank contributes to home loan counseling does not increase after mergers take place. When the mergers are negotiated with the community, a transitional period for funding of home loan counseling programs should be negotiated. Banks should be required to maintain the level of funding of the banks they merge with, at least for a transitional period.

- **In some cases, mergers can be beneficial.** Sometimes the new financial institution brings more expertise obtained from experiences in other cities, and greater commitment to community lending.

- Statewide goals for banks are not sufficient for an area that is losing major corporate headquarters. **Banks coming into San Diego County through mergers should develop some local community lending goals.**

- **Many small, local banks are not very involved in affordable housing** development; they often do not have the expertise or capacity. However, some felt that there are not enough projects each year to support a new bank consortium. Either the consortia must have a niche role, or the development volume for low-income housing must grow.

General Housing Credit Issues

Finally, there were a number of miscellaneous issues related to specific affordable housing needs in San Diego County:

- **There were several gaps identified in private sector production and financing of low-income housing in San Diego County**. Some of these include financing for 3 and 4 bedroom family housing, farm worker housing, mobile home park financing, small rental projects, housing for the very lowest income levels, senior housing, and mixed-use projects.

- Some felt that **emphasis to date has been on the development of more affordable market rate housing** rather than low-income housing. Both objectives must be addressed concurrently.

- **Increased and regular communication** between lenders, non-profits, planners, public agencies, and the academic and business communities is needed to set priorities and coordinate strategies.

- **There is a need to move affordable housing development beyond housing production.** Additional funding or loan products should be developed for community centers, child-care centers, and other facilities that support low-income households and enhance people's ability to earn a living to support house payments. Some felt that these related services are difficult to fund through existing programs.

SMALL BUSINESS

Small business development is a broad topic. The interviews focused on small business in low and moderate-income communities, including ethnic communities, specifically, per the focus of this study. The discussions did not address, and the comments presented here do not necessarily pertain to, the topic of small business development generally. While there are many programs and efforts to help small businesses and start-up companies in the region, particularly in targeted industries, small businesses in low and moderate-income communities face particular challenges. These communities often have less competitive infrastructure and contemporary commercial or industrial sites, retail and service business serve a market population with less buying power per capita, the cost of conducting business is sometimes higher, and the business support network sometimes is not developed as well. The primary issues raised by participants associated with small business development in low-income communities were as follows:

- The need for high quality, more appropriate technical assistance.
- Better networks and communication between groups involved in small business services.
- The difficulty of outreach and marketing to small businesses in low- income communities.
- Gaps in financial support versus capital needs.
- And other issues.

Technical Assistance and Financial Literacy Training

The need for quality small business technical assistance, financial literacy training and education, and small business counseling was an issue raised by most of the persons interviewed regarding small business development in low and moderate income communities. Several people felt that businesses in low-income communities do not lack awareness of loan availability, but do lack an understanding of what it takes to get a loan. Some of the specific issues raised were as follows:

- **Existing technical assistance tends to focus on the development of business plans.** Some felt that this emphasis does not adequately address the multi-faceted needs of small business owners operating in today's technology-oriented, complex business environment.

- Small business owners who participate in programs are often assigned to counselors based upon availability rather than expertise, and they usually see different counselors for each session. **The quality of the technical assistance is not consistent.**

- **The majority of existing technical assistance is provided only through group classes.** The group class format does not provide enough individualized assistance. It was suggested that the low-income homebuyer-counseling model, which incorporates group classes and individualized counseling, should be replicated for targeted small businesses.

- **Small businesses have different needs as they reach various stages of growth.** Existing technical assistance is primarily short-term. It was suggested that a new model that integrates various services over the long-term development of a business should be developed. Some stressed that professional service firms can provide this assistance, but that the referrals network in low-income communities need to be improved.

- An important factor in technical assistance is personal interaction and trust. **Existing technical assistance is often culturally insensitive**, particularly with minorities and new immigrants, and there have been situations where clients feel confused and intimidated at the end of a technical assistance seminar or counseling session. More multi-lingual small business counselors are needed. Others noted, however, that the ethnic distribution of business owners often is different than the ethnic distribution of the market area population.

- **Economical, good quality loan packaging** needs to be available to small businesses, particularly in low-income areas. An intermediary or ombudsman process was suggested to help small business clients package applications, expedite paperwork, and advocate for the borrower.

- **Small business owners have a need for basic financial literacy training.** Many small businesses in low-income communities do not comprehend how banks and credit work. It was noted that some immigrants trying to start a business are use to a cash-only economy. Businesses should be educated about open lines of credit during the good times, not just when they are in trouble and it is harder to qualify. They also need to receive training in areas such as market research, accounting, and how to incorporate technology into a business.

- **There is a need for specialized technical assistance by industry, not just general business assistance.** A mentoring program within specific industries was suggested.

- Some felt that **loan workshops and technical assistance (counseling and seminars) should be located in low-income neighborhoods**, not just downtown. Downtown workshops can often be intimidating and inconvenient for small business owners. Many business owners in low-income communities typically are too busy to travel downtown for workshops during the workday, especially if they are reliant on public transportation.

- Several interviewees believe that many small businesses in low-income communities not only experience a lack of local banking support, but also have **inadequate access to basic business services** such as companies that process checks. This often leads to higher costs.

- It was suggested that **existing Small Business Development Centers should be better utilized.** Their technical assistance should be expanded and improved, and taken to the neighborhoods. Some suggested that SBDCs should participate in the loan packaging process.

- According to some interviewed, **incubators can play an important role** in providing access to long term, continuous technical assistance, as well as access to critical business services and capital. Some felt that San Diego does not have its share of incubators that are focused on low-income communities. Others, however, felt that locating within a small business incubator can stigmatize a business.

Communication and Linkages

Another major issue identified by interview participants was the need for better communication and linkages between various players in economic development in San Diego County.

- While there are many organizations that work with small businesses (chambers, colleges, the SBA, cities, business improvement districts, etc.), **there is currently no coalition or network for bringing together these organizations that work with small businesses in San Diego County.** There has been no comprehensive effort to examine gaps in services to small businesses.

- Some felt that **a directory of small business service providers** in San Diego County would be extremely useful for both referral and collaborative purposes.

- Many felt that there is a need to **better link regional economic development efforts with community based economic development efforts.** While the region's economic development strategies focus on targeted industry clusters, many of these industries, especially those associated with high-technology and tourism, do not exist in low and moderate-income communities. However, opportunities do exist for businesses that service these regionally important industry clusters. Also, some technology-driven businesses can start anywhere, including low and moderate-income communities.

- Several felt that **the linkages between secondary education, the universities, and small businesses are weak**.

- Some felt that **redevelopment agencies focus too much on new real estate development** and not enough on business development and revitalization.

- It was suggested that **welfare reform efforts should be linked more with small business development.** Many former welfare recipients are turning to entrepreneurship, but have very little experience in running a small business. They also do not have access to affordable, good quality business services and advice.

Outreach and Marketing

There were several suggestions for marketing loan products and technical assistance to small businesses in low and moderate-income communities, as follows:

- According to the small business service providers and financial institutions interviewed, outreach to small businesses is time consuming and costly, but is also extremely important. **Many small business owners are not aware of existing services and loan products.**

- Many community organizations active in small business development have found that "word of mouth" is the most effective marketing and outreach tool. Door-to-door canvassing is another effective technique. Because small business owners are generally extremely busy and cannot leave their business for long periods of time, **it is necessary to bring services and information to them.** Many small business owners do not have the time to go to a bank downtown to find out about loan products or lines of credit that could help their businesses. Some suggested marketing through the growing network of business improvement districts (BIDs) in the region.

- **Physical presence is critical for outreach and marketing efforts.** It was felt that banks tend to focus marketing efforts on neighborhoods where they have a physical presence. Furthermore, people living in low-income communities notice the absence and/or closure of banks and often feel their community has been degraded. Some assert that a large amount of buying power leaves low-income communities because of the lack of small business services.

- **More marketing should be conducted through ethnic publications, radio shows, and television programs.** Banks and small business assistance providers should also utilize existing "gatekeepers" or leaders in San Diego's ethnic communities.

Financial Support and Capital Needs

The greatest emphasis regarding capital needs was for start-ups, micro-loans, loan sizes that were larger than micro-loans, but smaller than conventional small business loans. Most felt financial support in low-income communities needs improvements. Some of the specific comments regarding financial support and capital needs were as follows:

- Most people interviewed felt that **financial institutions are still not adequately addressing the needs of small businesses in low-income communities.** Compared to the progress that has been made in the development of affordable housing financing expertise, and low-income homebuyer products, some felt that there has been relatively little progress made in the area of small business lending in low-income communities. When traditional banks are removed from a community, there is a perception that they do not market in the neighborhood as aggressively.

- Others not that banks have really pursued small business clients aggressively in the past few years, with **more available loan products and more competitive rates**.

- It was stated that small business owners become frustrated with the loan process because **decisions are made downtown or in other cities**. While credit scoring facilitates the loan application and approval process, it is also one of the major methods used to deny loans. Yet credit-scoring criteria is not well understood.. Some felt that credit scoring is based on general criteria and empirical relationships that are biased against low-income communities, and that there should be a scoring discount factor for businesses in targeted communities.

- Some felt that as banks continue to merge and grow, **there is less focus on personal relationships**. This lack of personal service is compounded by the trend towards more electronic services, and creates additional barriers for low-income communities, particularly low-income immigrant communities.

- Some felt that there was a **problem with appraisals** that establish collateral values, because they do not take into account the peculiarities of the market area, unreported cash sales, and other factors.

- Some believe that **insurance redlining** was a greater problem than bank redlining.

- Many small business owners have a great deal of credit card and other debt with extremely high interest rates; they are often not aware that loans are available from banks for their businesses. Credit history is a major problem. **There is a major need for debt consolidation loans.**

- There is a **gap between micro loans (such as those provided by ACCION) and larger SBA loans.** Banks do not market to very small businesses; there is still a need for additional micro- lending.

- **Very few lenders fund start-up businesses** due to the risk. Credit cards, home mortgage refinancing, savings, and families and friends were cited as the primary sources of start-up capital. Potential entrepreneurs in low and moderate income communities have more difficulty obtaining start-up capital because of the lower equity in their homes, the limited financial resources from families and friends, their own limited savings, and their limited assets that can serve as security. Many businesses have not been in business long, and have difficulty using the business' assets as collateral, even when they wish to expand.

- Unlike start-ups in the high-tech sector, many small businesses in low and moderate-income communities have **less access to potential venture capital funds**. Most businesses in these communities tend to be in other sectors not targeted by venture capitalists, do not meet their initial equity criteria, and do not meet their potential rate-of-return criteria.

- Certain ethnic groups utilize **loan and investment pools for start-up capital**.

- **Some businesses lease their sites when they would benefit from owning their locations.** Small businesses generally approach banks for working capital or to consolidate loans, but do not realize that loan products are available to help them finance ownership of their sites. SBA real estate products should be marketed more in low-income communities.

- While San Diego is one of the most active regions in the country for SBA loans, SBA products tend to **benefit the best of small businesses** rather than serve the more marginal small businesses in the neediest communities.

- Some noted that **real estate loans are the most popular** with banks because there is tangible security and the note can be sold on the secondary market.

- Several sources of **government funding assistance programs** exist that help small businesses in certain circumstances or specific locations, including SBA programs, industrial development bonds, energy bonds, Enterprise Zone facility bonds, SEDC's revolving loan fund, the City of San Diego's EMTEC, façade improvement loans and matching grants, and others. Most of these programs serve established businesses.

- Some felt that local government had a role in assisting targeted small business obtain financing, but that **government should not be a direct provider of financing** of small businesses operations. Rather, government should be a facilitator, an information-clearing house, a risk underwriter through financial institutions, and a provider of targeted loans and matching grants for specific public purposes.

- The region's governments should push for **more local matching dollars** to leverage federal dollars to assist community economic development efforts.

- Several mentioned the **need for an equity fund** to provide earlier stage seed capital for amounts below the level that venture capitalists provide, and for businesses with equity needs that are not in the high-tech sector.

Other Issues and Suggestions

The following general comments and suggestions were discussed during the interviews:

- While per capita income is lower than average in low and moderate-income communities, the **buying power in the market may be high due** to the market area's population density and the lack of competition.

- Banks are slowly changing their underwriting criteria, but there are still not enough efforts to **educate small businesses about what they need to do** to qualify for and utilize new loan products.

- Some people interviewed felt that **banks are not the only institutions that raise barriers**. Some believe that insurance companies discriminate in low-income communities, and appraisers often do not recognize business patterns that are different, sometimes as a result of cultural differences.

- There is a need for increased public awareness about **how the Community Reinvestment Act works.**

- Many small businesses in low-income communities do not have the connections, nor are in the industries, to access non-conventional sources of capital. **Many noted that avenues should be developed that help match small business with investors with specific interests.**

- Some felt that **a consortium of banks could establish a targeted loan program**. Other strategies mentioned included exploring the non-traditional debt and equity financing models that exist in San Diego's ethnic minority communities.

- Any new strategies or programs that are developed should try to **work through already established institutions**, including government agencies, financial institutions, and non-profit organizations.

- Some noted that **non-profits often are more creative**, knowledgeable about their target communities, and comprehensive in their approach, but that many non-profits lack the organizational capacity, technical expertise, and financial resources. Local governments and financial institutions should partner with non-profit organizations.